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SUBJECT: GERMAN GAS COMPANY WILL REVIEW IRAN PROJECT

Classified By: EMIN Robert Pollard for reasons 1.4 (b) and (d)

¶1. (C) Summary: Bayerngas is reviewing its project to help build natural gas vehicle fueling stations in Iran. Reacting to German and Israeli newspapers reporting Bayerngas' intent to set up such stations in Iran, the German Ministry of Economics contacted Bayerngas. While company representatives asserted their legal right to export equipment or provide services for the project, they admitted that they had taken into account the politics or timing of the project and have agreed to reconsider whether to proceed. If Bayerngas decides to go ahead, it will seek a finding from the government that the transaction is legal. Although the German government may be unable to block the Bayerngas deal on legal grounds, officials appear willing at least to discourage and delay it. End Summary.

¶2. (C) Econoff met with Ministry of Economics export control official Martin Lutz and Deputy Head of Division for the Middle East, Dr. Rudolph Gridl to discuss press reports of Bayerngas GmbH entering into an agreement to build natural gas vehicle fueling stations in Iran. These reports appeared in the German business daily FT Deutschland and in the Jerusalem Post and, taken together, suggest a project value of 20-30 million Euro. The Jerusalem Post quoted a Bayerngas spokesman as saying the project may involve 100 stations with a value, as estimated by FT Deutschland, of 200-300 thousand Euro each. Bayerngas is majority owned by quasi-municipal corporations providing utilities to a number of Bavarian cities.

¶3. (C) Ministry officials stated they learned of this project only from the press reports. (On April 17, EMIN provided a copy of the FTD article to a senior Economic Ministry official in charge of export control policy, who apparently had not heard of it beforehand.) Gridl said he contacted Bayerngas, which told him that they had an absolute right to this export under German law, as it violated no UN or EU sanctions. Further, Gridl said, Bayerngas asserted that the project did not require a license from the German export control authority (BAFA), as it did not involve any dual-use, military or other regulated items. According to Gridl, Bayerngas would neither confirm the project's value, nor provide details as to whether this project was for exports of goods or for provision of technical expertise needed to install the fueling stations.

¶4. (C) Gridl said he agreed with Bayerngas' legal position, but nonetheless impressed upon them the poor timing and political sensitivity of such a project, particularly at this moment in Iran's dealings with the U.S and the EU. Bayerngas admitted that they had not considered these aspects, nor had they anticipated the negative press coverage. The company would now take some time to review the project in this light before moving forward. It is, however, difficult to predict

how Bayerngas will react to governmental pressure, Gridl stated.

¶5. (C) Lutz said that, while no items associated with this project would likely require an export license from BAFA, it is nearly certain that if the project goes forward, Bayerngas will seek a "Nullbescheid" certification from BAFA that no regulated items are involved. This application will provide BAFA (and possibly other ministries) the opportunity to conduct a thorough review of the project, a process that can take several months in sensitive cases. According to Lutz, Bayerngas' status as a quasi-public company will not play a role in any BAFA review process. Lutz stressed to Econoff that this project does not involve liquefied natural gas (LNG) or refinery technology, the core foci of Germany's extra-legal "moral suasion" campaign to discourage new exports to Iran.

¶6. (C) Comment: While the timing and optics of this project are sub-optimal in the current phase of U.S - Iranian relations, it does demonstrate that the Ministry of Economics is sensitive to such cases and can engage in "moral suasion" at appropriate levels with German business. For legal reasons, German officials generally do not like to advertise their efforts in this regard because they fear among other things that the companies in question may sue them, as has happened in a few recent BAFA cases. Post will report on any significant developments as the information becomes available.
Anania